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THE TAX LAWYER

TAXES | 11/14/2013

How Identity Thieves Got \$12M Of \$65M Refund Claims Before Being Caught

If you've ever waited anxiously for a tax refund that never came, reports of crooks getting millions of bogus refunds are irksome. And every year it seems to get worse. Stolen identity tax-refund fraud causes more than \$2 billion in losses to the U.S. Still, it is hard to understand how scams involving the tax system aren't easier to detect. Too bad they involve so much money. Reports say the IRS pays out billions in bogus refunds. The money is real.



But a New York man may take the cake. Officials say his was one of the largest and most long-running stolen identity tax-refund schemes **ever**. Jose Torres, 47, of the Bronx, pleaded guilty to conspiracy to defraud the U.S., theft of government property and aggravated identity theft.

In all, 13 others were arrested with Torres, 8 of whom plead guilty. See [Man Pleads Guilty to Stealing \\$9.9M in Massive Tax Refund Identity Theft Scheme](#). The fraud ran from 2007 to 2012, and involved filing about 8,000 false tax returns claiming over \$65 million in refunds. Happily, the bulk of these refunds were never sent out, or were intercepted by the feds.

But the Treasury Department still lost more than \$12 million. This was a multi-pronged tax scam, involving stealing Social Security numbers and birth dates. That way fake tax returns claiming refunds could be filed. It was an organized network with a division of labor.

Torres and his cohorts staked out mail carrier routes and sometimes even purchased lists of addresses covered by a single mail carrier. The plan called for staking out addresses along carrier routes so they could grab refund checks they were expecting. It was pretty elaborate.

However, a common denominator was that most of the stolen identities were from Puerto Rico. Puerto Ricans have Social Security numbers, but aren't taxed by the IRS unless paid by U.S.-based companies or the U.S. government. That makes their Social Security numbers especially valuable to thieves.

Of course, the problem is bigger than Puerto Rico. A recent report revealed that the IRS paid out \$132 billion in bogus tax credits over the last decade. The Treasury Inspector General for Tax Administration says [the IRS is violating Executive Order 13520, which President Obama signed to reduce improper payments.](#)

The Earned Income Tax Credit is refundable, so you can claim it even if you pay **no** income tax. In fact, 21% to 25% of all the claims in 2012 were improper, the report claims. That means \$12 billion to \$13 billion was misspent.

You might think that the IRS could recoup the erroneous payments, but it's easier said than done. Erroneous tax refunds are common. So are audits after refunds are issued. For that reason, the mere fact that you receive a tax refund doesn't mean your return has been audited or approved.

The IRS generally has [three years](#) to audit. Often, a refund will be processed and the audit comes later. If you get a [tax refund](#), make sure it's yours.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.